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Message Text

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INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
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----------065226 281314Z /20
P 281158Z JUN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC PRIORITY 3968
INFO ALL EC CAPITALS PRIORITY
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E.O. 11652: GDS
TAGS: ETRD, MTN, FR
SUBJ: MTN -- STRAUSS/DENIAU MEETING

1. SUMMART: IN A GET-ACQUAINTED MEETING, AMBASSADOR STRAUSS AND FOREIGN TRADE MINISTER DENIAU REVIEWED OUTSTANDING MTN ISSUES AGAINST THE BACKGROUND OF POLITICAL REQUIREMENTS OF THE MAJOR PARTNERS. NO DECISIONS WERE ANTICIPATED OR TAKEN ON SPECIFIC PROBLEMS. BUT IN DISCUSSING SUCH MAJOR PROBLEMS AS SUBSIDIES AND RULES OF ORIGIN, THE TWO PRINCIPALS STATED THEIR VIEWS FRANKLY AND POSITIVELY IN THE CONTEXT OF A COMMON DESIRE TO COMPLETE THE NEGOTIATIONS RAPIDLY. DENIAU RESPONDED WELL TO AMBASSADOR STRAUSS'S EMPHASIS ON THE POINT THAT NOW IS THE TIME TO WORK OUT FINAL
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BARGAINS RATHER THAN GET LOST IN TECHNICAL HAGGLING.
END SUMMARY.

2. GENERAL. AMBASSADORS STRAUSS AND HARTMAN FIRST MET PRIVATELY WITH DENIAU ON SUNDAY, JUNE 25. THE SUBSEQUENT WORKING DINNER SESSION INCLUDED THE FOLLOWING FRENCH ADVISERS: SCHNEITER, DIRECTOR OF DENIAU'S

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PRIVATE OFFICE; DE MOREL AND PREVEL OF THE FOREIGN TRADE MINISTRY STAFF; AND DUTET OF THE ELYSEE STAFF. IN ADDITION TO AMBASSADORS STRAUSS AND HARTMAN, THE U.S. SIDE INCLUDED AMBASSADOR WOLFF, STR GENERAL COUNSEL RIVERS, AND EMBASSY ECONOMIC MINISTER. THE ATMOSPHERE WAS RELAXED AND FRIENDLY THROUGHOUT, DESPITE FIRM STATEMENTS BY STRAUSS AND DENIAU REGARDING OVERALL APPROACH AND THE RESPECTIVE POSITIONS ON OUTSTANDING MTN ISSUES.

3. DENIAU PRESENTED HIS GENERAL VIEWS ALONG FOLLOWING LINES: THE WORLD HAS CHANGED DRASTICALLY SINCE THE TOKYO DECLARATION. IT IS IMPORTANT TO KEEP THE GOAL OF TRADE LIBERALIZATION IN MIND AND TO PRESERVE AS MUCH OF AN OPEN TRADE SYSTEM AS POSSIBLE. BUT THIS CAN BE DONE ONLY IF SHOCKS TO THE SYSTEM -- SUCH AS SUDDEN SPURTS OF EXPORTS FROM ADVANCED LDCS -- CAN BE AVERTED OR CUSHIONED. THIS IS ONE REASON WHY FRANCE IS SO INSISTENT ON THE SELECTIVE SAFEGUARD QUESTION. ALL DEVELOPED COUNTRIES SHOULD PLAY BY THE SAME RULES (AN ALLUSION TO THE DAMAGE CRITERION FOR COUNTERVAILING). MOREOVER, FRANCE LIKE OTHER COUNTRIES MUST GET SOME THINGS OUT OF THE NEGOTIATION THAT BUSINESS, LABOR, AND GENERAL PUBLIC OPINION WILL CONSIDER TO BE RESPONSIVE TO THEIR CONCERNS.

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4. STRAUSS EMPHASIZED THAT NOW IS THE TIME TO MAKE THE FINAL DEALS, MOST OF THE TECHNICAL ISSUES HAVING BEEN THOROUGHLY EXPLORED. NO COUNTRY IS GOING TO GET EVERY-THING IT WANTS OUT OF THE NEGOTIATIONS. STRAUSS WAS CONVINCED, HOWEVER, THAT EVERYONE CAN GET ENOUGH TO ASSURE MEANINGFUL BENEFITS FOR THE NATIONAL INTEREST AND AN OVERALL POSITIVE RESULT FOR WORLD TRADE. THE U.S. WOULD DO ITS BEST TO FIND SOMETHING -- HOWEVER MODEST -- ON EVERY MAIN ISSUE OF CONCERN TO FRANCE. THIS COULD ONLY BE ACCOMPLISHED, HOWEVER, IF FRANCE, THE COMMUNITY, AND OTHER MAJOR GATT PARTNERS ARE PREPARED TO MEET US HALFWAY. STRAUSS MADE CLEAR THAT THE U.S. IS NOT A DEMANDEUR BECAUSE OF THE COINCIDENCE OF TIMING WITH THE BONN SUMMIT. NEVERTHELESS, HAVING AN GREEMENT FOR THE SUMMIT OUGHT TO BE IN THE COMMON INTEREST. DENIAU RESPONDED THAT WE SHOULD TRY TO HAVE AN "INTELLIGENT" RESULT FOR THE SUMMIT. STRAUSS SUMMED UP BY SAYING THAT FINAL AGREEMENT IS WITHIN REACH; THAT THERE ARE A LIMITED NUMBER OF TOUGH ISSUES TO BE SETTLED; AND THAT HE HOPED TO KEEP IN TOUCH WITH DENIAU. DENIAU RESPONDED WARMLY AND EMPHASIZED THAT HE WOULD WELCOME FURTHER CONTACT.

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5. RULES OF ORIGIN. STRAUSS EMPHASIZED THAT IT IS ESSENTIAL FOR US TO HAVE SOME SATISFACTORY SOLUTION ON THIS MATTER, ESPECIALLY NOW THAT THE COMMUNITY HAS BEGUN SQUEEZING OUR TEXTILE TRADE. DENIAU, RECALLING HIS PERSONAL INVOLVEMENT IN THE EC/EFTA RULES OF ORIGIN NEGOTIATION WHEN HE WAS AN EC COMMISSIONER, STRONGLY ADVISED THAT WE NOT RAISE THIS SUBJECT AS AN ISSUE OF PRINCIPLE. THIS WOULD STIR UP VARIOUS EC AND EFTA MEMBERS AND, ESPECIALLY, THE EC COMMISSION. ON THE OTHER HAND, IF WE COULD IDENTIFY SPECIFIC PROBLEM AREAS, HE BELIEVED SOMETHING COULD BE WORKED OUT.

6. AGRICULTURAL ACCESS. AS EXPECTED, DENIAU ARGUED THAT IMPROVED ACCESS FOR U.S. AGRICULTURAL EXPORTS WILL BE EXTREMELY DIFFICULT. THIS WAS PARTLY DUE TO THE BIG BILATERAL IMBALANCE IN US-EC (SPECLFICALLY IN US-FRENCH) AGRICULTURAL TRADE. HE IS NEVERTHELESS WILLING TO LOOK AT SPECIFIC U.S. PROPOSALS. FRANCE WILL HAVE TO HAVE
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SOMETHING ON CHEESE. IN ADDITION, DENIAU'S COMMENTS INDICATED THAT THE FRENCH ARE ATTACHING EVEN MORE IMPORTANCE TO THE COGNAC PROBLEM THAN HERETOFORE. STRAUSS REFERRED TO OUR REQUIREMENTS ON SUCH SPECIFIC PRODUCTS AS TOBACCO AND POULTRY. HE ALSO MENTIONED COMMODITY AGREEMENTS AS AN AREA IN WHICH WE HAVE RESPONDED TO EC REQUESTS.

7. ON AGRICULTURE GENERALLY, DENIAU LAMENTED THE FACT THAT THE CAP HAS RESULTED IN INCREASED EC AGRICULTURAL PRODUCTION ACROSS THE BORD RATHER THAN ENCOURAGING SPECIALIZATION BY MEMBER STATES IN LINE WITH THEIR NATURAL ADVANTAGES. THIS HAS MAJOR IMPLICATIONS FOR THE MTN ACCESS AND SUBSIDY QUESTION SINCE, NO MATTER HOW DIFFICULT WORLD COMPETITION MAY BE IN THE FUTURE, THE COMMUNITY MUST INCREASE ITS AGRICULTURAL EXPORTS.

8. SUBSIDY/COUNTERVAILING. AFTER STRAUSS INTRODUCED THE SUBJECT AND RIVERS BRIEFED ON U.S. THINKING, DENIAU PROBED AS TO HOW QUICKLY A CODE COULD BE WORKED OUT AND HOW SPECIFIC IT COULD BE AND STILL BE SOUND AND POLITICALLY PALATABLE. HE THOUGHT ONE SHOULD FOCUS ON THE TRADE DISTORTING EFFECTS OF SUBSIDIES RATHER THAN GOOD AND BAD SUBSIDIES PER SE. DENIAU ACKNOWLEDGED THAT A FORMULA MIGHT BE WORKED OUT, BUT HE QUESTIONED HOW USEFUL IT MIGHT BE SINCE IT WOULD HAVE TO BE RATHER GENERAL. HE SHOWED INTEREST IN A LIST OF SUBSIDIES SO LONG AS THIS WERE "ILLUSTRATIVE." HE THOUGHT SUCH A LIST MIGHT EVEN BE USEFUL TO THE FRENCH GOVERNMENT INTERNALLY IN FENDING OFF EXCESSIVE INDUSTRY DEMANDS. DENIAU ALSO EMPHASIZED A GENERAL FRENCH VIEW THAT LARGE CHUNKS OF U.S. INDUSTRY ARE SUBSIDIZED VIA NASA AND PENTAGON R AND D CONTRACTS. HE, OF COURSE, REITERATED CONFIDENTIAL

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FRENCH INSISTENCE THAT THE U.S. OUGHT TO ADOPT A DAMAGE CRITERION FOR COUNTERVAILING.

9. GOVERNMENT PROCUREMENT. THIS SUBJECT WAS TOUCHED ON ONLY BRIEFLY. STRAUSS MADE CLEAR THAT WE NEED RULES IN THIS AREA. DENIAU POINTED TO SEVERAL DIFFICULTIES BUT AGREED TO HAVE A FURTHER LOOK AT THE PROBLEM. HE NOTED IN PASSING FAMILIAR FRENCH CONCERNS ABOUT THE BUY AMERICA ACT AND U.S. PUBLIC PROCUREMENT PRACTICES BELOW THE FEDERAL LEVEL.

10. SAFEGUARDS. DENIAU EXPLAINED THE FRENCH INSISTENCE

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ON SELECTIVITY IN TERMS OF AVOIDING ACTION AGAINST LDCS WHICH ARE NOT THE SOURCE OF A PROBLEM. BUT HE ALSO STRESSED THE INTERNAL COMMUNITY ASPECT; I.E., FRENCH DESIRE FOR LEVERAGE VIS-A-VIS THE COMMISSION. HE WAS RETICENT ABOUT EX POST FACTO "DISCIPLINE" BUT DID RECOGNIZE THAT PROPER JUSTIFICATION WOULD BE REQUIRED. HE LISTENED BUT DID NOT RESPOND DIRECTLY TO WOLFF'S SUGGESTION THAT THE FORM OF A NON-SELECTIVE SAFEGUARD CLAUSE COULD BE PRESERVED VIA JUDICIOUS SELECTION OF BASE PERIODS FOR CALCULATING IMPORT QUOTAS. STRAUSS INDICATED THAT WE COULD DO SOMETHING ON THIS ISSUE BUT WARNED THAT WE WOULD NOT ACCEPT SELECTIVITY WITHOUT DISCIPLINE.

11. CUSTOMS VALUATION AND ASP. THE U.S. SIDE IDENTIFIED THIS AS AN AREA IN WHICH THE COMMUNITY WANTS SOMETHING AND ONE IN WHICH WE HAVE BEEN FORTHCOMING AND HOPE TO FIND SOLUTIONS. WE CAN ONLY DELIVER, HOWEVER, AS PART OF A SATISFACTORY MTN PACKAGE.

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12. COUNTERFEIT BRAND NAMES. AGREEING THAT FRANCE HAS A MAJOR INTEREST IN PROTECTING ITS WELL-KNOWN BRAND NAMES AGAINST COUNTERFEITING (E.G., HAUTE COUTURE,

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PERFUMES), DENIAU THOUGHT A PROMPT EFFORT SHOULD BE MADE TO WORK SOMETHING OUT. WHILE DE MOREL WAS CONCERNED PRIMARILY WITH THE NEED TO GIVE THE PROPOSAL THOROUGH STUDY (ESPECIALLY THE QUESTION OF THE LEGAL COMMITMENTS FRANCE WOULD BE TAKING ON), DENIAU EMPHATICALLY SUPPORTED STRAUSS'S VIEW THAT A COUNTER-FEITING AGREEMENT WOULD BE HELPFUL AS PART OF THE MTN PACKAGE.

13. LDC ISSUES. IN CONNECTION WITH SELECTIVE SAFE-GUARDS, EXPORT SUBSIDIES, AND OTHER TOPICS, DENIAU EMPHASIZED THAT SOMETHING OUGHT TO BE DONE TO DIFFEREN-TIATE BETWEEN ADVANCED LDCS AND OTHER DEVELOPING COUNTRIES. IN PARTICULAR, HE HOPED THE MTN WOULD DO SOMETHING ABOUT "FREE TRADE ZONES" OR OTHER "TAX HAVENS"
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WHICH SERVE ESSENTIALLY AS PRODUCTION PLATFORMS FOR MULTINATIONALS RATHER THAN BRINGING INVESTMENT AIMED AT BUILDING UP TRULY UNDERDEVELOPED AREAS.

14. TARIFFS. DENIAU AND STRAUSS AGREED THAT, IN GENERAL, TARIFF REDUCTIONS ARE CLEARLY LESS IMPORTANT THAN NTMS. ON THE OTHER HAND, IT WAS RECOGNIZED THAT TARIFFS REMAIN IMPORTANT FOR SPECIFIC ITEMS AND FOR SOME COUNTRIES SUCH AS CANADA AND AUSTRALIA WHICH EITHER HAVE TOO MANY HIGH TARIFFS OR TOO MANY UNBOUND POSITIONS. DENIAU SPOKE OF AN OVERALL EC REDUCTION OF 28 TO 30 PERCENT.

15. COMMENT: WHILE REVIEW OF SPECIFIC ISSUES WAS VERY USEFUL, THE MAJOR VALUE OF THIS SESSION WAS CLEARLY THE PERSONAL RAPPORT ESTABLISHED BETWEEN AMBASSADOR STRAUSS AND DENIAU. WHILE DENIAU GAVE NOTHING AWAY ON SUBSTANCE, HE DEMONSTRATED A KEEN INTEREST IN KEEPING CHANNELS OF COMMUNICATION OPEN AND APPEARED GENUINELY INTERESTED IN STRAUSS'S APPROACH OF SOME HORSE-TRADING ON THE REMAINING BIG ISSUES.
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Status: NATIVE
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